MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1987-88

90-00667/

OFFICERS

Clement Jones

President

R. J. Kivisto

General Manager

G. P. Trithart

Secretary-Treasurer

HEAD OFFICE: Moose Lake, Manitoba

MOOSE LAKE LOGGERS LTD.
BOARD OF DIRECTORS

Clement Jones - Chairperson
Manager - Ducks Unlimited

H. Holmgren
President - E. Holmgren & Sons

R. Grey
Foreman - Moose Lake Loggers Ltd.

H. Boyle
Director - Regional Services Branch, Dept. of Natural Resources

L. Easter
Band Member - Moose Lake Indian Band

J. Martin
Welder - Moose Lake Community

J. Mercredi
Logger - Moose Lake Loggers Ltd.

M. Bercier
Logger - Moose Lake Loggers Ltd.

G. P. Trithart
Director - Corporate Projects
Department of Northern Affairs

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APPENDIX - Audited Financial Statements For
The Year Ended March 31, 1988

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1987 - MARCH 31, 1988

I. INTRODUCTION:

Moose Lake Loggers Ltd. is a Crown Corporation formed in 1971 under the authority of the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Corporation also has a mandate to train local residents to fill the jobs created, with the ultimate goal being divestiture to local residents.

The Company uses skidders to harvest sawlogs and pulpwood in tree length for sale to Manfor Ltd. in The Pas. Most of the Company's employees are native people from Moose Lake, Manitoba, a community located near valuable forestry resources but with a traditionally serious lack of employment opportunities.

II. MAJOR DEVELOPMENTS:

Following six years of continuous losses to March 31, 1977 (the accumulated total of which was $551,000), the Company has experienced profits in six of the last 11 years of operation as follows:

Year Ending March 31st	Profit (Loss)
1988	$(142,359)
1987	71,488
1986	(11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544
1980	(18,306)
1979	54,420
1978	52,994

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Despite the many operational problems which were encountered from 1977 to 1987 and a depressed world market for forestry products in more recent times, the Company was encouraged by its performance up to March 31, 1987. However, for the year under review, there was a dramatic reversal in the Company's profitability. This reversal was a direct result of a $7.05 per cord reduction in the contract wood price received from Manfor Ltd. This contract price reduction by Manfor was necessary to bring Moose Lake Loggers Ltd. wood costs in line with the costs of producing wood in Manfor's own cutting operations. Manfor was able to reduce its own costs of production by eliminating high cost camp operations. Moose Lake Loggers Ltd. still, however, maintained its camp operation in 1987/88 because commuting costs would be even higher than the costs of a camp operation. It was largely for this reason the Company's production costs could not be brought in line with Manfor's own costs of production.

The Company successfully completed a contract with Manfor Ltd. to plant 1,235,000 seedlings. This project enabled residents of Moose Lake as well as employees of the Company to participate in the 34 jobs created.

Mr. Melvin Bercier, a resident of Moose Lake and owner/operator of a skidder was appointed to the Board of Directors. Moose Lake Community now has five of the nine positions on the Board of Directors.

Production now originates from 23 owner/operated skidder machines, of which 14 are operated by residents of the area. Two additional Company-owned machines are also being operated by residents of Moose Lake.

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III. REVIEW OF RESULTS

A. Financial Results

Appended to this report are the Provincial Auditor's audited financial statements for the year ended March 31, 1988. These statements report a loss of $142,359 for 1987-88 compared to a profit of $71,488 for the previous year.

The reduction in revenues for 1987/88 was attributed to both a $7.05 per cord reduction in the contract wood price paid to the Company by Manfor Ltd. and a 13.3% reduction in the volume of wood produced and sold. Despite cost control measures instituted by the Company, the reduction in cords produced resulted in an overall increase in per cord costs. Specific cost categories where a real reduction in per cord costs were achieved included:

Repairs and Maintenance	.74/cord or $36,154
Fuel	.31/cord or $14,981
Insurance	.22/cord or $10,763

The following table illustrates per cord costs for major expenditure categories over the past three years:

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Cost Category	1985-86	1986-87	1987-88
Wages & Benefits (excludes tree planting)	$33.01	$32.64	$33.55
Equipment	11.37	11.51	12.67
Fuel	3.32	2.95	3.10
Total Direct Logging Costs	39.28	39.02	40.44
Total Camp Operations Costs	11.80	11.54	11.42
Total Administrative Costs	4.41	4.30	5.21
Total Costs	$55.49	$54.86	$57.07

The following table provides revenue and employment related payments for the last five years:

Year Ending March 31	Production Revenue	Wages & Fringe Benefits	Owner/Operator Rentals	Employment
1988	$2,352,981	$1,831,106	$615,890	73
1987	3,009,509	1,923,197	645,326	74
1986	2,992,638	1,869,171	641,692	74
1985	3,226,525	1,930,131	689,111	74
1984	2,421,091	1,578,101	515,286	74

B. Production

Production in fiscal year 1987-88 was 48,608 cords, a decrease of 7,464 cords from the previous year.

A comparison of annual production, in cords, for the last five years is provided in the following table:

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Year Ending March 31 .	Owner/Operators
1988	48,608
1987	56,072
1986	56,634
1985	63,545
1984	49,200

For the year under review, production was above contract levels in the early months, necessitating a general shut-down from May to September, 1987. However, the abnormally cold January and February, 1988 caused production to drop drastically, resulting in an overall shortfall in annual production. Contracts with Manfor Ltd. are based on the calendar year and were 60,300 and 58,200 for 1987 and 1988 respectively.

Ongoing absenteeism problems and recent cutbacks in Manfor Ltd.'s contract volumes have played a significant role in the financial viability of the Company.

C. Related Activities

Employment remains constant at 73 employees. Approximately 80% of those employed are Native residents of Moose Lake, Cormorant, Cranberry Portage and The Pas. Excluding The Pas, there is little or no alternate employment in these communities, except for traditional commercial fishing and trapping which is seasonal at best. Included in the 73 employees are 59 piece workers, 7 hourly and 7 salaried staff. The average annual salary in 1987-88 for logging was $25,084 compared to $24,769, $25,259 and $26,083 in each of the three previous years.

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The Company maintains a commissary which provides a variety of clothing, confectionery items and saw parts for employees. Parts and service for owner/operators are also provided, although some owner/operators have developed to the stage where they operate quite independently from the Company.

D. Training

The Company continues to provide on-the-job training. This training has produced the following favourable results in office and support staff employed by the Company:

	Total Staff		Native Staff	
	1987-88	1986-87	1987-88	1986-87
Office	3	3*	3	3*
Foremen	3	3	3	3
Kitchen & Dorms **	7	7	7	7

* One part-time

** Six are females

Manitoba

MOOSE LAKE LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1988 and the statements of retained earnings, revenues and expenditures, and changes in financial position, and the schedule of operating expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. Singleton, CA,
Assistant Provincial Auditor.

June 10, 1988,
Winnipeg, Manitoba.

EXHIBIT A

MOOSE LAKE LOGGERS LTD.

Balance Sheet
as at March 31, 1988
(with 1987 figures for comparison)

	1988	1987
ASSETS		
Current assets:		
Short term deposits	$ 75,000	$ 125,000
Accounts receivable (Note 3)	360,996	442,724
Loans receivable from sub-contractors re purchase of equipment - unsecured	34,495	46,808
Inventories, at cost	48,067	46,589
Prepaid expenses	21,931	29,486
Total current assets	540,489	690,607
Fixed and other assets (Note 4)	149,632	212,471
	$ 690,121	$ 903,078
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Excess of outstanding cheques over bank balances	$ 93,140	$ 108,367
Bank demand loan (Note 5)	70,000	70,000
Accounts payable and accrued liabilities (Note 6)	167,072	222,443
Total current liabilities	330,212	400,810
Shareholders' equity:		
Capital stock (Note 7)		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	5,720	5,720
Retained earnings, Exhibit B	54,099	196,458
Total shareholders' equity	359,909	502,268
	$ 690,121	$ 903,078

Approved by the Board:

Director _____

Director _____

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Balance, beginning of year	$ 196,458	$ 124,970
Less: Excess of expenditures over (under) revenues, Exhibit C	142,359	(71,488)
Balance, end of year, Exhibit A	$ 54,099	$ 196,458

EXHIBIT C

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Revenues:		
Log cutting contract - Manfor Ltd.	$ 2,352,981	$ 3,009,509
Commissary sales	368,999	358,100
Board charges	96,952	59,310
Road maintenance	26,813	18,047
Interest income	9,269	3,113
Accounting service fees	2,600	3,150
Tree planting	310,019	129,620
Miscellaneous	18,350	1,157
Total revenues	3,185,983	3,582,006
Expenditures, Exhibit E:		
Log cutting contracts	1,965,736	2,187,597
Camp operations	894,056	974,005
General and administrative	253,212	240,642
Tree planting	215,338	108,274
Total expenditures, Exhibit E	3,328,342	3,510,518
Excess of expenditures over (under) revenues, Exhibit B	$ 142,359	$ (71,488)

EXHIBIT D

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31 1988
(with 1987 figures for comparison)

	1988	1987
Cash Provided By (Used For):		
Operating activities:		
Excess of expenditures (over) under revenues	$ (142,359)	$ 71,488
Item not involving cash		
Depreciation and amortization	86,815	87,000
	(55,544)	158,488
Net change in non-cash working capital balances related to operations	44,746	(43,549)
	(10,798)	114,939
Investing activities:		
Additions to fixed assets	(23,975)	(45,474)
Net proceeds from disposals of fixed assets	-	4,250
	(23,975)	(41,224)
Increase (decrease) in cash	(34,773)	73,715
Cash deficiency at beginning of period	(53,367)	(127,082)
Cash deficiency at end of period	$ (88,140)	$ (53,367)
Represented by:		
Short term deposits	$ 75,000	$ 125,000
Bank demand loan	(70,000)	(70,000)
Outstanding cheques	(93,140)	(108,367)
	$ (88,140)	$ (53,367)

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Log cutting contracts:		
Wages and benefits	$ 1,288,626	$ 1,444,900
Equipment rental	609,653	643,167
Fuel and oil	49,146	65,407
Miscellaneous supplies	16,776	16,263
Repairs and maintenance	1,535	17,860
Exhibit C	1,965,736	2,187,597
Camp operations:		
Wages and benefits	200,049	252,219
Provisions	112,049	110,122
Fuel and oil	92,469	89,608
Repairs and maintenance	45,927	78,381
Depreciation	71,587	73,936
Freight	3,241	3,785
Insurance	21,214	31,142
Amortization - main road	2,260	5,607
Equipment rental	6,237	2,159
	555,033	646,959
Commissary - cost of sales	339,023	327,046
Exhibit C	894,056	974,005
Carried forward	$ 2,859,792	$ 3,161,602

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Brought forward	$ 2,859,792	$ 3,161,602
General and administrative:		
Wages and benefits	141,717	135,790
Health and post secondary education tax levy	31,860	23,966
Professional fees	19,522	15,445
Fuel and oil	8,848	10,429
Depreciation	7,038	6,167
Directors' fees and salaries	8,162	6,685
Directors' travel	6,396	4,922
Communications	4,055	3,639
Insurance	6,457	7,292
Stationery and supplies	2,548	2,965
Travel	3,948	5,688
Repairs and maintenance	2,014	5,724
Miscellaneous	10,647	4,795
Profit sharing plan	-	7,135
Exhibit C	253,212	240,642
Tree planting:		
Wages and benefits	200,714	90,288
Health and post secondary education tax levy	3,953	1,155
Tools and bags	915	5,699
Equipment maintenance	1,061	4,527
Bus and trucks	6,621	3,780
Miscellaneous	2,074	2,825
Exhibit C	215,338	108,274
Total expenditures, Exhibit C	$ 3,328,342	$ 3,510,518

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1988

1. Nature of Operations

Moose Lake Loggers Ltd. was formed in 1971 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Company also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

2. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles.

Fixed and other assets:

Fixed and other assets are stated at cost. It is the Company's policy to provide for depreciation and amortization of fixed and other assets on the basis shown in Note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to roadside and scaled, in accordance with the terms of the sales contract.

Administrative Expenses:

Certain administrative expenses, as detailed in Note 8, are provided at no charge or at a reduced charge by the Government of the Province of Manitoba.

3. Accounts Receivable

	1988	1987
Trade	$ 337,266	$ 400,012
Employees	20,825	39,752
Government of the Province of Manitoba	2,905	2,960
	$ 360,996	$ 442,724

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1988

4. Fixed and Other Assets

	1988			1987
	Cost	Accumulated Depreciation and Amortization	Net	Net
Main road construction	$ 235,321			
Less grants received	156,000			
	79,321	$ 79,321	$ -	$ 2,260
Campsite improvements	95,197	73,117	22,080	42,812
Buildings and trailers	509,829	445,127	64,702	105,951
Equipment	283,104	220,254	62,850	61,448
Total	$ 967,451	$ 817,819	$ 149,632	$ 212,471

The Company depreciates its fixed assets and amortizes its other assets on the following basis:

		Annual Rate
A)	Depreciation	
a)	Straight line	
	Buildings	10-33 1/3%
	Trailers	15-33 1/3%
	Equipment	12 1/2-33 1/3%
b)	Diminishing balance	
	Trucks	30%
B)	Amortization	
a)	Straight line	
	Campsite improvements	12 1/2-33 1/3%
b)	Other	
	Main road construction	10 cents per cord sold

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1988

6. Accounts Payable and Accrued Liabilities

	1988	1987
Trade	$ 63,499	$ 108,963
Government of the Province of Manitoba	31,070	12,520
Wage deductions	47,167	73,174
Employees	25,336	27,786
	$ 167,072	$ 222,443

7. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $24,000 (1987 - $32,000). The Government of the Province of Manitoba has previously provided Workers Compensation coverage for Company staff at no charge to the Company. Effective October 1, 1985 the Company agreed to pay the lesser of $5,000 per month or actual costs billed to the Government of the Province of Manitoba. Effective April 1, 1987 the Company agreed to pay the lesser of $60,000 per annum or actual costs billed to the Government of the Province of Manitoba. The total cost to the Company was $60,000 (1987 - $41,059). Actual cost paid by the Government of the Province of Manitoba to the Workers Compensation Board on the Company's behalf was $117,702 (1987- $51,120).

9. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba and Manfor Ltd., which is wholly owned by the Government of the Province of Manitoba.

10. Comparative Figures

Certain figures for the preceding period have been reclassified to conform with the presentation adopted for 1988.